

## INFORMATION REPORT

25X1

THIS IS UNEVALUATED INFORMATION

- 25X1

- 25X1

Approved For Release 2009/07/02 : CIA-RDP82-00047R000400320008-3

CONFIDENTIAL

-2-

the club, housing, the fire brigade, the office, etc. He also was charged with purchase of local materials.

- (b) The Chief Engineer- he supervised all production processes and was responsible for them along with the Director. Usually the salaries of the Director and the Chief Engineer were the same. Under the Chief Engineer were: the Chief Technologist, who headed the Technical Bureau; the chief of the Construction and Projecting Bureau; the chiefs of the mechanical and electrical repair shops; and the chiefs of all the manufacturing shops.
- (c) The Chief Accountant- his department was distributed between the head office and the shops. He was responsible not only for keeping the books, but also for expenses and collections. It was he who had to see that the latter activities conformed to financial regulations and plans set by higher authority.
- (d) The Chief Inspector- this official and the members of his department, who were mostly assigned to the various shops, were charged with the inspection of the production of the plant.

The official relationships between the above four officials were as follows: the Director had the right to give orders to the Chief Engineer, but the latter had the privilege of protesting to higher authority. Formally, the Director had no right to give orders first-hand to the manufacturing shops or to the offices under the Chief Engineer, but was supposed to go through the Chief Engineer. The Director alone could not dispose of money or materials. His instructions in this regard had to be countersigned by the Chief Accountant. For example, if in the planning specifications of materials for some product a steel number 3 angle of 75x75x5 mm was mentioned, but the chief of the shop asked for an angle of 60x60x6 mm, the Chief Accountant normally required the reason for such a change and could, if necessary, stop work on the item for a day while checking on the change. The Chief Accountant was required to carry out the second order of the Director given on such a controversial matter, but could report at once on this development to higher authority if he found that this order contradicted the production plan. In regard to the Chief Inspector, he had to follow the orders of the Director as far as the organization of his department was concerned, but no one could order him to pass manufactured items as satisfactory if he or his subordinates felt that the items were sub-standard. The above three officials--the Director, the Chief Engineer, and the Chief Inspector--were responsible for the quality of production and were subject to almost equal punishment if failures occurred. The above gives an idea of Soviet factory organization. In early 1952, even under Chinese management, this system had not been changed.

- 3. Approved plans from higher authority were received by Factory No 17 five times a year. These approved plans were for the total year and for each of the four quarters. Each quarterly plan was divided into three separate months. The plans for the total year and for the first quarter were received in December or in January. The plan for the second quarter arrived in March or early April. The plans for the third and fourth quarters usually arrived at the same time--in June or July. [redacted] representatives of the Communist Party and of labor unions did not participate in the planning process on the factory level. Soviet advisors did not participate in formulating the production plan for 1952 for No 17. This plan was the first one under the Chinese administration.

25X1

- 4. While Factory No 17 was still under DALENERGO, the production plan for the coming year was discussed in July or August. This was effected by means of preliminary conversations between the Director of No 17 and his planning personnel on the one hand and officials of DALENERGO's planning department and (unofficially) of the economic section of the Soviet Civil Administration. The factory presented a short memo listing items of factory production and recommended amounts. In turn,

CONFIDENTIAL

CONFIDENTIAL

25X1

-3-

DALENERGO indicated to No 17 the items and quantities that it expected would be needed, particularly mentioning articles which had not yet been produced by No 17. After some informal bargaining, the production program for No 17 for next year was fixed by an official letter from DALENERGO which normally was written in September or October. No 17's Planning Department then worked on the plan and submitted it in full detail to DALENERGO in November. Approximately the same process was followed [redacted] except that in the place of DALENERGO there was the Chinese Northeast Industrial Administration, located in Mukden. However, the practice of engaging in face-to-face conversations and discussions was to be abolished, and the initial outlines of the program submitted by the factory early in the fall had much less influence on the final plan. No 17, therefore, was to be kept much less informed about prospective production development. The approved plan for the coming year was usually delivered to No 17 either in December of the previous year or sometimes in January. However, at times important changes were made in the middle of the year, that is, for the third and fourth quarters. These changes usually meant an increase or decrease for certain items to be produced. For example, the plan [redacted] included 400 tire vulcanizers. Nearly all of them were partially or completely finished by mid-year, but DALENERGO changed the plan [redacted] and decreased the number of vulcanizers to 150. [redacted]

25X1

25X1

25X1

5. In regard to the question as to how much freedom was given at the plant level in revising goals and details, the final plan [redacted] which was given to No 17 from Mukden [redacted] was criticized in some details only. For example, the Russian emigré engineering staff of No 17 refused to make riveted boilers for steam rollers and insisted that they be welded. They also refused to construct riveted bridges for cranes and insisted on welding plate iron. Both points were won by the factory.

25X1

25X1

6. Yearly production plans contained 5 columns--one for the year and one each for the 4 quarters. The detailed program for the first quarter had as enclosures separate plans for each month. The detailed plans for the second, third, and fourth quarters which were given to the factory also contained programs for each month, but frequently did not repeat the yearly figures. [redacted] No 17, no plans were formulated for less than a month. The amount of wages per hour of work was fixed by the government and differed for each of the 8 grades of workers (under the Chinese grade scale for workers, there are 8 categories at present; under the Soviet there were 7 categories). Higher wages were paid to workers who did heavy or hot work, ie, those engaged in casting, melting, and moving of heavy units. This wage scale was attached to regular plan forms which were usually given to the factory in October or November. A scale of salaries was also included. Bonuses usually were not planned. The factory had the authority to pay bonuses if certain conditions were met. The conditions were such that bonuses in effect were paid from wages saved by increased efficiency. The cost of raw materials and other purchases was also furnished beforehand in a special catalogue.

25X1

7. For detailed information on provisions for plan changes see above. [redacted] in practice higher authorities such as those at DALENERGO could either increase or decrease factory plans. The factory, however, could apply only for an increase in production. [redacted] the same practice was retained by Chinese authorities. A factory could apply to enlarge its production program on the following grounds: by presenting practical evidence that it could produce more than the plan required, and that it had the necessary materials for such an increase.

25X1

25X1

CONFIDENTIAL

CONFIDENTIAL

25X1

-4-

8. In regard to the question as to whether the Planning Department's plan merely establishes norms, the answer is in the affirmative. It is a technical section, not a part of the Planning Department, which determines the processes to be used within a factory.
9. In regard to statistical records, the formal records were the monthly reports, made out on prescribed forms, which were forwarded to higher authority. The current daily records, however, were locally devised.
10. In regard to production norms, see the information above on planning. However, [redacted] based on the Soviet definition of "norm", which refers to time. In Soviet terminology norm refers to the time allotted for producing each detail or even for each part of the process in turning out that detail. This was calculated by the Technical Planning Department. These figures were criticized by shop authorities, including representatives of the labor unions, usually on the basis of changes in technology, as technological processes were frequently revised. These revisions were made to develop a new, more economical process or to meet a necessary substitution of materials and machines. Usually the shops attempted to do the work in less than the time allotted, so as to stimulate over-production of the plan. A general change of norms for articles normally included in the production program could be made not sooner than one year after the previous norm was instituted. However, in practice, particularly in connection with new types of items to be produced, trial norms were set for a certain period only. These were very easy to meet and were fixed in such a manner as to allow workers to become accustomed to the new processes. For example, in regard to production of lighters in 1948 and 1949, the first lighter was manufactured in  $1\frac{1}{4}$  months. After four months, about  $2\frac{1}{2}$  or 3 lighters were completed per month. The norms were changed about three times for this type of production and each time they were exceeded by more than 50%. In practice, the norms were based on decisions reached by the planning departments. These decisions themselves were based on figures which the Planning Engineer knew from previous experience. Of course, the decisions were affected by the conditions and types of machines available. In general, the norms were set so that an average workman could exceed them by not less than 15%. Time was calculated for the average grade of worker, ie, third or fourth grade. 25X1
11. The Planning Department draws up plans for each shop. That is, the monthly factory plan is divided according to the type of shop in the factory and each shop finds in the plan the number of items and the allotted time granted to the particular shop. For the mechanical shops, even the machine time was calculated, broken down by each type and size of machine. However, [redacted] as the shops operated according to the manner they thought most efficient, guiding themselves only by the given goals of producing at least as much as the production plan called for and by not exceeding the time allotted. 25X1  
25X1
12. The production plan for the factory had many facets. The items of production were expressed in quantity and "fixed prices". The plan total was expressed in fixed prices. The idea of fixed prices was introduced to Manchuria from the USSR. These prices were based on the cost of production. Initially in the USSR fixed prices were as of 1927, the year of the beginning of "industrialization". The point in using the fixed price system was that it enabled the Soviet authorities to obtain an overall production total for all the USSR, and to compare the production for each year. This comparison, again for the whole country, included groups of factories and individual factories, even though the type of production in the factory may have changed. However, in the mid-1930's, these prices lost their meaning, as during the interval after 1927 many new articles had come into

CONFIDENTIAL

CONFIDENTIAL

25X1

-5-

production and each one had been entered into the general list with the actual cost of its production at the time of its first manufacture. The cost of production by 1935 had become much less than it had been in 1927, and yet the new items were listed under the new prices while the old items which had been produced from earlier times were still listed by their prices of 1927. Comparison, therefore, became very difficult and frequently and obviously the results were inaccurate. Therefore, new fixed prices were assigned, based on the production level at the end of the 1930's. [redacted] approximately in 1950 in the USSR the fixed prices were again recalculated according to the new production level and the assortment of goods manufactured. In Dairen, fixed prices were assigned by the Soviet Civil Administration in 1946 or 1947. These prices were calculated in round figures only, and were based on the current Soviet fixed prices of the time. However, these prices for Dairen took into account the fact that the producing capacity of Chinese workers was  $\frac{1}{2}$  or 2 times less than that of Soviet workers. During the period 1946-1951 the currency in Dairen changed its value at least three different times. The fixed prices were altered to match the official rates. For 1951 and 1952, Factory No 17 received new fixed prices. [redacted] some of these did not at all seem to be correct as compared to other prices in the list, and that factory officials successfully requested that some of the prices be altered. Returning to the immediate subject of factory planning, the most important part of the planning was indicated on the type of form illustrated below.

25X1

25X1

Items of Production	Fixed Price Per Unit	For Year		For First Quarter		For 2nd Quarter..
		Quantity Ordered	Total Cost in Fixed Prices	Quantity Ordered	Total Cost in Fixed Prices	
Cranes, 20 T.	.					

In addition to expressing items of production of the factory in quantity and in fixed prices, the same information was also expressed in: working hours; and wages to be paid to workers directly engaged in production. In addition, calculations of output costs (cost to the factory of producing an item) were also included in the plan. Each calculation included the following:

- (a) Main materials used in production
- (b) Auxiliary materials - those used in manufacturing but not delivered to the customer, such as foundry sands, abrasives, lubricants, etc.
- (c) Fuel - used directly for melting, drying, heat treatment, forging, etc.
- (d) Wages - those directly connected with production were considered as the main wages; supplementary wages were considered those used for illness, annual leave, etc.

CONFIDENTIAL

-6-

13. A large form was used to summarize all expenses, subdivided as indicated above, for every item of production, per unit and for all the planned production. The last column to the right indicated the total price of planned production. See an example of the form below.

[illegible]

Approved For Release 2009/07/02 : CIA-RDP82-00047R000400320008-3

CONFIDENTIAL

-7-

14. In regard to planning requests for materials, the Economic Planning Department of the factory in August or September of each year began work on the next year's production plan. After the production program was approximately settled by the factory and agreed to in principle by the authorities of DALENERGO (and for some items such as spare parts and tools for trucks agreed to in principle by Soviet Army authorities), the Planning Department had to know the type and amount of materials needed for each item in the production plan. If the department did not yet have this exact information it had to make approximate calculations, because these figures were used as a basis by the department in preparing requests for materials needed in the production program. The requests were made on the following form (see below):

MATERIALS	ITEMS OF PRODUCTION		20 WINCHES	300 GAS TANKS	---	---	TOT. FOR PROGRAM	FOR FACTO- RY USE	TOTAL FOR YEAR
	100 CRANES	PER UNIT (IN KG.) TOTAL (IN KG. or L.)							
Sheets, 6 mm	1,200	120							

REMAINING STOCK AS OF 31 DECEMBER	NET BALANCE OF NEEDED MATERIALS

This form included several hundred items. After many changes occasioned by changes in the program plan and by reduction of the request by higher authorities, the factory's request was included by Mukden and Peiping in the general lists of materials to be made in China or to be imported from the USSR. Before the Chinese took over control of Factory No 17, this list had to be in Moscow not later than 1 December. There the request was again reviewed and then orders for the materials were placed in various Soviet factories, which had to

CONFIDENTIAL

CONFIDENTIAL

-8-

ship the materials to No 17 as they were included in the production plans for the Soviet factories. In practice, however, this whole process functioned rather slowly and materials which had been ordered began to arrive at Factory No 17 only in the summer months, with most of the deliveries occurring toward the end of the year. The above circumstances caused No 17 much inconvenience and endangered its production for the first half of the year. The factory naturally attempted not to remain idle during the early part of the year and therefore acted as follows:

- (a) increased stocks of materials most needed toward the end of the year;
- (b) attempted not to complete too many items, limiting over-production of the plan to about 15 or 20%. As a result there was much unfinished production for which materials were received only in the last weeks of the year and this production was delivered only in January or February of the next year;
- (c) rearranged within the factory actual production plan for the first months of the year, so that the factory could work up in that period all the material available, disregarding the fact that these products might be due only much later in the year.

15. In addition, two or three forms were utilized by the Planning Department for the financial plan. [ ] the exact contents of these tables, [ ] were figured in contemporary currency. [ ] the financial plan used Chinese yuans.

25X1

16. In regard to possible failure to fulfill production plans, [ ] the Economic Planning Department every day received signed copies of receipts given by the General Storage Department to the various shops for products which had been completed and delivered to storage by the shops. These copies bore the signature of the inspector. Current statistics were based on these receipts and therefore any failure to meet production goals would be noticed in a few days. [ ]

25X1

[ ] under this system a shop cannot fail in its production and yet escape notice. The Chief Engineer also kept an eye on production and the Chief Technologist did so to an even greater extent. Each shop chief, of course, was aware of the rate of production in his own shop and himself reported any difficulties. Any such unfavorable developments were either reported to the Director of the factory, if noticed by a member of the Planning Department, or to the Chief Engineer, if any of the above officials were involved. If any such report was made, the Director would at once, and quite informally, assemble all of the persons mentioned above and find out the reason for the trouble. If anything went wrong with machinery, supply, or there was a delay in delivery by some shop of parts that had to be worked up by another section, then the officials connected with such matters, such as the Chief Mechanical Engineer, the Commercial Director, and the bookkeeper, were invited into the Director's office by means of the telephone, and the difficulties were settled then and there. If the technical process decided on for planning production was stated to be inappropriate by a shop chief, the engineers meeting in the Director's office decided immediately what had to be done, and divided any necessary work between them, or passed it on to the laboratory engineers. If trouble was caused by a shortage of skilled or semi-skilled labor an immediate reapportioning of workers was ordered. Therefore, the failure of a shop could not be hidden and was immediately corrected by the administrators of the factory, if this was at all possible. The situation would be different, of course, if the factory could not fulfill the production plan because of lack of proper machines, labor, and materials which it needed at the time. However, please note that under normal conditions the factory had no real

25X1

CONFIDENTIAL



CONFIDENTIAL

-9-

excuse for failure, because production plans were purposely made in such a manner that they could be fulfilled with reasonable ease. In addition, higher authority, such as DALENERGO or the Industrial Administration in Mukden, preferred in general to set easy goals so that they could indicate progress in comparison to the previous year. However, higher authority did not want too much progress in any one year because it wished to leave a margin for overfulfillment of the plan and also for progress in coming years. An example of this was the fact that the cement factory near Dairen, formerly the Onoda firm, during the period 1948-51 regularly received plans which used only about one quarter of its capacity and regularly overfulfilled these plans. If the factory really had trouble in fulfilling the plan, higher authority, as indicated above, wished to help the factory. Higher authority could help by placing some new orders to replace those which could not be fulfilled (but these had to be of the same value as expressed in fixed prices) and even by permitting some mistakes in calculation. For example, in 1950, Factory No 17 received for the second half of the year an order for 10,000 army bedstands and 3,000 hospital bedstands; both items had not been indicated in the 1950 plan which had been received in January 1950. Materials for the order began to arrive at No 17 only late in October 1950, which left only two months to complete the order.

25X1

17. The pressure to fulfill plans was not great at Machine Factory No 17. In addition, the fact that the management was responsible for the prevention of accidents and the inspectors for quality of product militated against pressure. Damage to the machines in the factory occurred usually because of ignorance or carelessness of workers and lack of supervision by foremen.
18. In regard to inspection visits by outsiders, while No 17 was still under DALENERGO, primarily in 1948-49, the factory was visited every week at least by a supervisor who was a member of the Economic Section of the Soviet Civil Administration. He was a military engineer, but in peacetime he had been a professor at the Technical Institute in Moscow. In subsequent years, the effectiveness of the Economic Section greatly decreased, and therefore No 17 was visited less frequently. [redacted] members of the Economic Section visited or telephoned every day because of their interest in completion of the production plan for 1950, particularly in regard to the army bedstands, mentioned above. These officials inspected, interfered, and gave advice. Despite all this, it did not prevent miscalculations in regard to the

25X1

CONFIDENTIAL

CONFIDENTIAL

-10-

25X1

fixed prices of the bedstands. [redacted] In regard to visits by personnel of DALENERGO, ie, its director and other officers, these visits were infrequent--once a month or less. Also, once a year, but not every year, some Soviet Army general would visit the plant. [redacted] the man who directed four machine factories (Nos 17, 18, 19, and 20) visited No 17 two or three times. [redacted] there were two visits from a representative of the Planning Section of the Chinese Industrial Administration in Mukden. The purpose of these visits was to instruct personnel of No 17 in the proper method of filling out new Chinese forms for [redacted] production plan. All inspections were of a superficial character.

25X1

25X1

25X1

25X1

19. Machine Factory No 17 had no connection with the Chinese Communist Central Government in Peiping. The highest authority for No 17 was the Industrial Administration of the Northeastern Government in Mukden. In Dairen, the highest Chinese official was the man who supervised factories number 17, 18, 19, and 20. This individual functioned under the Industrial Administration in Mukden. [redacted] he was not concerned with No 17's planning, perhaps because the factory had efficient top-level personnel.

25X1

20. In regard to the question whether all plant officials were subordinate to the factory Director, [redacted] all officials of No 17 were subordinate to the Director, with the partial exception of the bookkeeper, [redacted] As to whether the organization and management of the plant was based on some directive or manual handed down from above, the organization and management of No 17, when it was under DALENERGO, was based on Soviet laws. The type of organization specified depended upon the size of the plant in question. This general regulation was very well known to the Soviets, but DALENERGO, at times, provided some general instructions. [redacted] when No 17 came under Chinese authority, some changes occurred by orders of the Chinese.

25X1

25X1

21. In regard to methods and procedures for procurement of materials for Factory No 17, [redacted] some materials, such as sands for the foundry, were received directly from the area where they were found, and were brought to the plant by factory workers in trucks. A few materials were bought on the local market in Dairen. Occasionally, materials were borrowed from other factories and these were to be replaced after similar materials arrived at No 17 from the place where they had been requested.

25X1

22. In regard to allocation and distribution of materials within the plant, all materials which arrived at the factory were supposed to be stored in the main storage facility of the plant, which was located in the eastern part of the plant grounds. This was adhered to, on paper at least, in that all materials were recorded in books as having arrived and then having been given to the shops which needed the materials. In practice, however, some material could be brought directly to the shop in order to save time. The chief of the storage department each day gave to the plant Director a list of materials received. If necessary, the list could be expressed in round figures if the actual weights and sizes had not yet been checked. This list usually was also distributed to the Chief Engineer and the Planning Departments. If occasionally the material would not arrive, then this fact was reported to the planning people over the telephone or obtained by them as a result of their inquiries. This method was usually followed if there was no serious shortage of the materials involved or if the shortage did not endanger the progress of production. In such case, the plant Director and the other officials mentioned above would pay little attention to the matter. However, if a critical situation arose, or could arise in the near future, then the Director would personally devote time to solving the problem, or delegate it to his most important subordinates. The normal way of allocating materials within

CONFIDENTIAL

25X1

CONFIDENTIAL

-11-

the plant was as follows. A shop chief prepared an application to the chief of the storage department. The application consisted of a small piece of paper, in triplicate, for each type and size of material, and indicated the item in the production plan which required this material. This application slip first went to the Planning Department, which checked whether the type and quantity of material requested was indicated in the production plan or whether the requested material was a reasonable substitute. If the application met these two criteria, then one of the members of the planning staff would sign the slip. Then the slip was brought to the bookkeeper, who examined it carefully and who usually refused to sign it if the material was not specifically mentioned in earlier planning forms. In such case, the problem might be settled either by telephonic or personal conversation between the bookkeeper and the planning staff. If the bookkeeper still refused, then the applicant could bring the slip to the Director of the plant. If the Director signed it, then the bookkeeper also signed it and forwarded the application to the chief of the storage department, who saw to it that the requested materials were delivered to the shop. However, if the bookkeeper still believed that the application was completely out of line, he reported the matter to the bookkeeper of the next higher echelon--DALENERGO, or later, the Industrial Administration in Mukden. If the factory administration saw that the plant would soon be short of materials, the Chief Engineer, the Economic Planning Department, or perhaps some other official reported the matter to the Director and recommended how the remaining material should be used and what substitutes could be utilized. The Director then ordered the chief of the storage department to hand out this material for certain purposes only, or not let it be used at all without the Director's personal order. This type of decision could be made either by the Director alone, or by his calling an immediate meeting of the above-mentioned top personnel, whichever he felt more convenient.

25X1

every type of material before being obtained by a shop was to first be stored in the main warehouse (glavni sklad), and later directed to the shops needing it, after the necessary applications had been made. In connection with the distribution of materials within the plant,

25X1

25X1

a railway spur line divides the factory grounds into two sections. The plant area east of this line has its own railway tracks of standard and narrow gauge, as well as a concrete-surfaced road. Moving materials to the shops situated on that side of the factory did not present any difficulty. Materials were usually moved on small railway wagonettes of standard or narrow gauge or on horse-drawn carts. Occasionally trucks were used, but infrequently, as their use was not too convenient in this area. The welding shop was the largest consumer of plate and sheet steel of L-, T-, U-, and H-shaped construction steels. This shop, however, was situated to the west of the main railway spur line and therefore was poorly connected with the main storehouse, but the welding shop did have a railway line of standard gauge of its own. Because of these factors, the above types of steels were stored on the ground near the welding shop, but were under the control of the main storehouse. By locating these materials near the welding shop, the movement of these heavy items was minimized as much as possible, ie, they had to be moved only from 30-50 meters. This was done by hand. Sometimes one plate would be carried by 16 men or plates and sheets would be towed by tractors. Machine Factory No 17 had two such tractors.

25X1

CONFIDENTIAL